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C O N F I D E N T I A L SECTION 01 OF 03 BAGHDAD 000388

SIPDIS

DOE FOR GEORGE PERSON

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TAGS: [EPET](#) [ENRG](#) [EINV](#) [IZ](#)

SUBJECT: OIL MINISTER'S UPDATE ON PETROLEUM DEVELOPMENTS

REF: A. BAGHDAD 352

[B](#). BAGHDAD 194

[C](#). 08 BAGHDAD 4014

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Classified By: Economic Counselor Michael Dodman, reasons 1.4(b,d)

[1](#). (C) SUMMARY: During a February 12 meeting with EMIN, Oil Minister Husayn al-Shahristani reinforced his commitment to the licensing round process and the Shell flared gas deal; dismissed the relevance of the oil production workshop convened by Deputy PM Barham Salih; said relations with KRG and possibilities of developing cross-border fields with Iran and Kuwait continued to be stalemated; indicated good cooperation with the Ministry of Electricity; and affirmed that he would attend an EITI Global Conference in Doha.
END SUMMARY

Licensing Round

[2](#). (C) Shahristani said the licensing round to invite international oil company (IOC) participation in Iraq's oil and gas fields was moving according to schedule. The Istanbul workshop (taking place February 12-13, but without Shahristani's participation) would provide an opportunity for the Ministry of Oil (MoO) to respond to the numerous questions received from the IOCs. The second licensing round would proceed more smoothly, since it involved non-producing fields, unlike the first licensing round that was the subject of the Istanbul workshop. In addition, the MoO was still gaining experience with the first licensing round.

[3](#). (C) Shahristani added that the licensing round process was complicated by strong nationalist sentiments, which viewed any IOC participation in Iraq's petroleum sector as an invitation to steal. Without elaborating, he said that, while unruffled by opposition from the media or Iraqi expatriates in Jordan, he found "other views surprising."

Shell Flared Gas Deal

[4](#). (C) Shahristani foresaw smoother sailing for the heads of agreement to form a joint venture with Shell to process associated gas from southern oil fields. He explained that there was no question of ownership, since the project was not an upstream one, but simply an arrangement for Shell to process and market natural gas that was a by-product of the MoO's operation. Deputy Minister Shamma had headed the MoO team that met with Shell February 11. Shahristani observed that his only complaint was that Shell could work faster, since he wanted to reduce gas flaring as soon as possible.

Oil Production Workshop

¶5. (C) Shahrستاني said he had agreed with Deputy Prime Minister Barham Salih to postpone a workshop originally scheduled for February 20-22 by a week to begin on February 27. The workshop would invite participation of mostly Iraqi experts, but Shahrستاني commented that he did not expect any new or unexpected recommendations to result; the MoO knew what was required and was taking the necessary steps. Shahrستاني asserted "we don't need anyone else to come to help us."

KRG Agreement

¶6. (C) Shahrستاني reviewed the set of agreements with the Kurdistan Regional Government to export KRG oil and renew MoO work at the Khormala Dome that resulted from his November 24 trip to Erbil (described in ref C). The pipeline (connecting the Tawke field to the Iraq-Turkey pipeline) was ready by the end of 2008, but was not yet connected. Shahrستاني said he had written a letter saying that the connection should be made. The MoO had finished one well at Khormala Dome, but then the KRG had stopped cooperating, returning its armed groups to the area and removing more equipment.

¶7. (C) Shahrستاني lamented that no progress was being made. Q7. (C) Shahrستاني lamented that no progress was being made. The major sticking point was the financial arrangements with the KRG, but he implied that his hands were tied. Oil revenues were automatically deposited into the DFI, with distributions to the KRG carried out according to a pre-existing arrangement (in other words, Shahrستاني is offering the KRG nothing more than the 17% share that it receives from all of Iraq's oil export revenue). A KRG delegation was supposed to travel to Baghdad to discuss the issue further, but it had still not arrived. Shahrستاني

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added that central government-KRG relations were being dealt with as one package, but noted that he preferred to see issues resolved one-by-one. Otherwise, if there was disagreement over one issue, the whole process became stuck.

Cross-border Fields

¶8. (C) Shahrستاني said that GOI officials had met recently with both Iranian and Kuwaiti counterparts, generating positive reports on possible deals on development of cross-border oil fields. In fact, however, nothing concrete had materialized and no draft agreements had been circulated.

Shahrستاني said he had suggested that an independent consultant or international oil company be selected that would be acceptable to both sides to examine data on the fields and make recommendations.

Ministry of Electricity Fuel Requirements

¶9. (SBU) Shahrستاني foresaw no problems providing fuel for additional generation capacity that the Ministry of Electricity (ME) was purchasing and installing. The ME had assured the MoO that the first new generators could operate on heavy fuel oil (HFO) and had agreed to install them near existing refineries. The additional generators that required natural gas to be installed in out-years coue.kQMM1 which comes at the direct initiative of the prime minister.

¶13. (C) Comment continued: The two processes - the MoO's bid rounds for long-term contracts to operate fields, and the Barham Salih-led workshop to explore steps to increase short-term oil output - are moving in parallel. We have heard from oil firms that the existence of two uncoordinated processes creates some confusion for them. But both appear to have the PM's full support. The USG position should be to

support both: to encourage U.S. oil firms to participate in the bid rounds (although obviously not accepting conditions that they believe are unworkable), and to a positive response to the call for expert views on short-term production options. We appreciate the assistance of Washington agencies in encouraging the World Bank and IMF to attend the February 27 workshop; we have provided DPM Salih with the names of American oil experts to invite, and have reached out directly to those experts who were invited to encourage their participation. End comment.

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